



**Independent auditors' review report on the
Interim Condensed Consolidated Financial Statements**

To the Shareholders of Riyadh Bank
(A Saudi Joint Stock Company)

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyadh Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2017, and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.

Other Regulatory Matters:

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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15 Sha'aban 1438H
11 May 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2017	31 December 2016	31 March 2016
	Notes	SAR'000	SAR'000	SAR'000
			(Audited)	(Restated)
ASSETS			(Restated)	(Restated)
Cash and balances with SAMA		20,219,891	21,262,177	18,177,347
Due from banks and other financial institutions		8,149,190	4,567,155	8,438,199
Positive fair value of derivatives	8	114,165	189,295	538,171
Investments, net	5	43,317,883	45,157,381	43,399,070
Loans and advances, net	6	140,915,244	142,909,367	152,563,848
Investment in associates		549,307	548,594	526,852
Other real estate		238,057	245,017	247,205
Property and equipment, net		1,851,001	1,862,349	1,882,780
Other assets		968,749	877,666	1,227,535
Total assets		216,323,487	217,619,001	227,001,007
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		8,544,059	8,836,713	8,595,708
Negative fair value of derivatives	8	96,801	138,638	478,149
Customer deposits	7	154,187,357	156,683,349	165,759,922
Debt securities in issue		8,050,461	8,018,373	8,043,041
Other liabilities		8,483,534	6,968,867	6,873,292
Total liabilities		179,362,212	180,645,940	189,750,112
Shareholders' equity				
Share capital		30,000,000	30,000,000	30,000,000
Statutory reserve		2,936,093	2,936,093	2,100,471
Other reserves		593,788	532,929	279,534
Retained earnings		3,431,394	2,604,039	3,820,890
Proposed dividends		-	900,000	1,050,000
Total shareholders' equity		36,961,275	36,973,061	37,250,895
Total liabilities and shareholders' equity		216,323,487	217,619,001	227,001,007

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	For the three month period ended 31 March	
	2017	2016
	<u>SAR'000</u>	<u>SAR'000</u>
	<u>Note</u>	
Special commission income	1,837,649	1,674,600
Special commission expense	412,337	407,276
Net special commission income	1,425,312	1,267,324
Fee and commission income, net	401,068	408,293
Exchange income, net	72,366	92,565
Trading(loss) /income, net	(157)	10,515
Dividend income	5,595	9,420
Gains /(losses) on non-trading investments, net	78,545	(22,362)
Other operating income	10,517	221,419
Total operating income, net	1,993,246	1,987,174
Salaries and employee-related expenses	397,734	375,185
Rent and premises-related expenses	80,150	79,224
Depreciation of property and equipment	72,029	69,453
Other general and administrative expenses	183,461	179,110
Impairment charge for credit losses, net	217,113	104,816
Reversal of impairment charge for investments	(14,040)	-
Other operating expenses	11,009	11,169
Total operating expenses, net	947,456	818,957
Net operating income	1,045,790	1,168,217
Share in earnings of associates, net	1,565	5,499
Net income for the period	1,047,355	1,173,716
Basic and diluted earnings per share (in SAR)	14 0.35	0.39

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three month period ended 31 March	
	2017	2016
	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the period	1,047,355	1,173,716
Other comprehensive income:		
Items that are or maybe reclassified back to interim condensed consolidated statement of income in subsequent periods		
- Available for sale investments		
Net change in fair value	149,515	(38,426)
Net amounts transferred to interim condensed consolidated statement of income	<u>(88,656)</u>	<u>20,493</u>
Other comprehensive income (loss) for the period	<u>60,859</u>	<u>(17,933)</u>
Total comprehensive income for the period	<u>1,108,214</u>	<u>1,155,783</u>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three month period ended 31 March 2017 & 2016

	SAR'000					Total
	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	
31 March 2017						
Balance at the beginning of the period as originally stated	30,000,000	2,936,093	532,929	2,604,039	1,700,000	37,773,061
Effect of restatement- Provision for zakat for 2016(note 13)	-	-	-	-	(800,000)	(800,000)
Balance at the beginning of the period- (Restated) (note 13)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Net change in fair value of available for sale investments	-	-	149,515	-	-	149,515
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(88,656)	-	-	(88,656)
Net income for the period	-	-	-	1,047,355	-	1,047,355
Total comprehensive income	-	-	60,859	1,047,355	-	1,108,214
Final dividends - 2016 (note 13)	-	-	-	-	(900,000)	(900,000)
Provision for zakat 2017 Q1 (note 13)	-	-	-	(220,000)	-	(220,000)
Balance at the end of the period	30,000,000	2,936,093	593,788	3,431,394	-	36,961,275
31 March 2016						
Balance at the beginning of the period as originally stated	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
Effect of restatement- Provision for zakat for 2015(note 13)	-	-	-	-	(250,000)	(250,000)
Balance at the beginning of the period- (Restated) (note 13)	30,000,000	2,100,471	297,467	2,847,174	1,050,000	36,295,112
Net change in fair value of available for sale investments	-	-	(38,426)	-	-	(38,426)
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	20,493	-	-	20,493
Net income for the period	-	-	-	1,173,716	-	1,173,716
Total comprehensive income	-	-	(17,933)	1,173,716	-	1,155,783
Provision for zakat 2016 Q1 (note 13)(Restated)	-	-	-	(200,000)	-	(200,000)
Balance at the end of the period (Restated)	30,000,000	2,100,471	279,534	3,820,890	1,050,000	37,250,895

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three month period ended 31 March	
	2017	2016
	Note	
	SAR'000	SAR'000
OPERATING ACTIVITIES		
Net income for the period	1,047,355	1,173,716
Adjustments to reconcile net income for the period to net cash from (used in) operating activities:		
Accretion of discounts and amortisation of premium, net on non-trading investments, net	18,858	22,424
Gains on non-trading investments, net	(78,545)	22,362
Gains on trading investments, net	(136)	-
Depreciation of property and equipment	72,029	69,453
Share in earnings of associates, net	(1,565)	(5,499)
Reversal of impairment charge for investments	(14,040)	-
Impairment charge for credit losses, net	217,113	104,816
	<u>1,261,069</u>	<u>1,387,272</u>
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA	146,238	545,942
Due from banks and other financial institutions maturing after three months from date of acquisition	(1,144,000)	-
Positive fair value of derivatives	75,130	(340,632)
Held for Trading investments	(100,000)	-
Loans and advances	1,777,010	(7,602,473)
Other real estate	6,960	11,206
Other assets	(91,083)	(458,467)
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	(292,654)	4,096,015
Negative fair value of derivatives	(41,837)	291,020
Customer deposits	(2,495,992)	(2,092,211)
Other liabilities	395,046	203,623
Net cash used in operating activities	<u>(504,113)</u>	<u>(3,958,705)</u>
INVESTING ACTIVITIES		
Proceeds from sales and maturities of non-trading investments	8,509,623	7,884,026
Purchase of non-trading investments	(6,402,463)	(6,544,905)
Purchase of property and equipment, net	(60,681)	(57,532)
Net cash from investing activities	<u>2,046,479</u>	<u>1,281,589</u>
FINANCING ACTIVITIES		
Dividend and Zakat paid	(379)	(826)
Net cash used in financing activities	<u>(379)</u>	<u>(826)</u>
Net increase(decrease) in cash and cash equivalents	<u>1,541,987</u>	<u>(2,677,942)</u>
Cash and cash equivalents at beginning of the period	16,082,760	21,041,852
Cash and cash equivalents at end of the period	<u>10 17,624,747</u>	<u>18,363,910</u>
Special commission received during the period	<u>1,820,909</u>	<u>1,560,193</u>
Special commission paid during the period	<u>486,469</u>	<u>311,006</u>
Supplemental non-cash information		
Net changes in fair value and transfers to consolidated statement of income	<u>60,859</u>	<u>(17,933)</u>

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three months period ended 31 March 2017 & 2016

1. GENERAL

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 340 branches (31 March 2016: 334) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

Riyad Bank
King Abdulaziz Road – Al-Murabba District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers Islamic (non-interest based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries, a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; and d) Curzon Street Properties Limited incorporated in the Isle of Man and are collectively referred to as "the Group".

2. BASIS OF PREPARATION

During 2017, Saudi Arabian Monetary Authority (SAMA) issued a Circular no. 381000074519 dated 11 April 2017 relating to the accounting for zakat and tax and subsequent amendments to the Circular were made by SAMA, through certain clarifications. The impact of the above are as follows:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- Zakat and tax are to be accrued on a quarterly basis and recognized in consolidated statement of changes in shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the quarter ended 31 March 2017 have been prepared using the International Accounting Standard (IAS) 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and IFRS. This change in framework resulted in a change in accounting policy for zakat (as disclosed in note 4) and the effects of this change are disclosed in note 13 to the interim condensed consolidated financial statements.

The Group also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2016.

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency, and are rounded off to the nearest thousand except as otherwise indicated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three months period ended 31 March 2017 & 2016**3. BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements also include the financial statements of the subsidiaries which are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The Group acts as a Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for:

a) Change in the accounting policy in relation to accounting for Zakat

The Group amended its accounting policy relating to zakat and have started to accrue zakat on a quarterly basis and charging it to retained earnings. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. Where no dividends were paid, zakat was accounted for on a payment basis. The Group has accounted for this change in the accounting policy relating to zakat retrospectively (see note 2) and the effects of the above change are disclosed in note 13 to the interim condensed consolidated financial statements

b) Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017.

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three months period ended 31 March 2017 & 2016

5. INVESTMENTS, NET

Investments are classified as follows:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Investments:			
- Held for Trading	100,136	-	-
- Available for sale	15,777,124	16,013,987	15,719,621
- Other investments held at amortised cost	27,439,112	29,141,896	27,650,035
- Held to maturity	1,511	1,498	29,414
Total	43,317,883	45,157,381	43,399,070

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the Available for sale category.

The carrying and fair value of these reclassified investments as at 31 March 2017 was SAR 2,556 million (31 March 2016 was SAR 3,200 million).

Had the reclassification not occurred, the interim condensed consolidated statement of income, for the three months period ended 31 March 2017 would have unrealized fair value gains on such reclassified investments amounting to SAR 55 million (31 March 2016: unrealized gain of SAR 27.8 million).

6. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Consumer loans	38,334,386	38,035,114	38,154,678
Commercial loans and overdrafts	103,588,140	105,520,275	114,195,973
Credit cards	731,015	773,471	824,556
Performing loans and advances	142,653,541	144,328,860	153,175,207
Non-performing loans and advances	1,151,815	1,158,022	1,385,153
Gross loans and advances	143,805,356	145,486,882	154,560,360
Allowance for impairment	(2,890,112)	(2,577,515)	(1,996,512)
Total	140,915,244	142,909,367	152,563,848

7. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Demand	81,933,454	77,846,981	72,813,420
Saving	326,595	324,982	314,688
Time	62,341,141	67,811,458	78,011,587
Other	9,586,167	10,699,928	14,620,227
Total	154,187,357	156,683,349	165,759,922

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months period ended 31 March 2017 & 2016

8. DERIVATIVES

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	31 March 2017 (Unaudited)			31 December 2016 (Audited)			31 March 2016 (Unaudited)		
	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000
Held for trading:									
Special commission rate swaps	52,784	(25,280)	8,349,887	57,693	(26,803)	7,992,359	323,611	(285,861)	8,891,959
Forward foreign exchange contracts	47,448	(57,494)	25,412,678	91,894	(71,763)	25,510,910	155,098	(131,542)	26,015,351
Currency options	13,933	(13,933)	7,117,408	39,708	(39,708)	8,376,319	59,462	(59,462)	9,026,148
Held as fair value hedges:									
Special commission rate swaps	-	(94)	75,000	-	(364)	75,000	-	(1,284)	230,474
Total	114,165	(96,801)	40,954,973	189,295	(138,638)	41,954,588	538,171	(478,149)	44,163,932

9. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

a) The Group's credit related commitments and contingencies are as follows:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Letters of credit	7,664,431	7,620,798	9,256,616
Letters of guarantee	67,570,650	71,849,338	80,188,573
Acceptances	2,121,728	2,119,841	3,205,806
Irrevocable commitments to extend credit	12,343,317	12,140,732	9,377,312
Total	89,700,126	93,730,709	102,028,307

b) Others

During the period ended 31 March 2017, there has been no change in the status of the Group's Zakat assessments. The Group's position with respect to stance on these assessments, has remained the same as that disclosed in the annual consolidated financial statements for the year ended 31 December 2016.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows comprise the following:

	31 March 2017 (Unaudited) SAR'000	31 December 2016 (Audited) SAR'000	31 March 2016 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	12,204,557	13,100,605	9,925,711
Due from banks and other financial institutions maturing within three months from date of acquisition	5,420,190	2,982,155	8,438,199
Total	17,624,747	16,082,760	18,363,910

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months period ended 31 March 2017 & 2016

11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

Fair value and fair value hierarchy

31 March 2017 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
- Derivative financial instruments	-	114,165	-	114,165
- Held for trading investments	100,136	-	-	100,136
- Available for sale investments	15,477,297	33,070	266,757	15,777,124
Financial liabilities				
- Derivative financial instruments	-	96,801	-	96,801
 31 December 2016 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
- Derivative financial instruments	-	189,295	-	189,295
- Available for sale investments	15,478,675	268,663	266,649	16,013,987
Financial liabilities				
- Derivative financial instruments	-	138,638	-	138,638

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months period ended 31 March 2017 & 2016

11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Three month period ended	
	31 March 2017 (Unaudited) SAR'000	31 March 2016 (Unaudited) SAR'000
Reconciliation of movement in Level 3 (Unaudited)		
Opening balance	266,649	253,006
Total gains or losses		
- recognised in interim condensed consolidated statement of income	108	438
- recognised in other comprehensive income	-	639
Closing balance	266,757	254,083

There were no transfers between the fair value hierarchy levels.

The fair values of on-statement of financial position financial instruments, except for loans and advances, other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost are not significantly different from the carrying values included in the financial statements. The fair values of customers' deposits, debt securities in issue, cash and balances with SAMA, due from and due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks and other financial institutions. The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 146.4 billion at 31 March 2017 (31 December 2016: SAR 146.7 billion).

The estimated fair value of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The estimated fair values of these investments was SAR 27.5 billion at 31 March 2017 (31 December 2016: SAR 29.1 billion).

12. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. The transactions between the Bank's operating segments are recorded as per the Bank's transfer pricing system. There are no other material items of income or expenses between the operating segments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three months period ended 31 March 2017 & 2016

12. OPERATING SEGMENTS (continued)

The Group's reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate banking

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investment

Principally providing money market trading and treasury services as well as the management of the Group's investment portfolios.

Other

Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

The Group's total assets and liabilities at 31 March 2017 and 2016 and its total operating income, total operating expenses and net income for the three months periods then ended, by operating segments, are as follows:

31 March 2017	Investment banking and brokerage		Corporate	Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail					
Total assets	39,681,267	85,982	101,460,428	72,060,199	3,035,611	216,323,487
Total liabilities	63,713,206	62,635	89,814,524	20,094,515	5,677,332	179,362,212
Total operating income	642,203	73,268	894,609	288,602	94,564	1,993,246
Net special commission income	564,449	22,529	613,838	138,928	85,568	1,425,312
Fee and commission income, net	71,526	50,844	278,812	(114)	-	401,068
Inter segment revenues	106,851	21,339	(147,580)	(66,181)	85,571	-
Total operating expenses	228,524	33,313	337,363	(5,030)	353,286	947,456
Depreciation of property and equipment	23,452	-	2,612	2,203	43,762	72,029
Impairment charge for credit losses, net	(27,469)	-	244,582	-	-	217,113
Reversal of impairment charge for investments	-	-	-	(14,040)	-	(14,040)
Share in earnings of associates, net	-	-	-	-	1,565	1,565
Net income (loss)	413,679	39,955	557,246	293,632	(257,157)	1,047,355
	-	-	-	-	-	-

31 March 2016

31 March 2016	Investment banking and brokerage		Corporate	Treasury and investment	Other	Total
SAR'000 (Unaudited)	Retail					
Total assets	39,842,495	88,677	113,137,293	70,804,403	3,128,139	227,001,007
Total liabilities	55,740,100	56,465	109,590,824	20,221,879	4,140,844	189,750,112
Total operating income	646,822	71,644	784,821	173,866	310,021	1,987,174
Net special commission income	546,748	14,419	524,900	92,375	88,882	1,267,324
Fee and commission income, net	94,237	57,512	258,582	(2,038)	-	408,293
Inter segment revenues	33,030	12,615	(50,077)	(84,456)	88,888	-
Total operating expenses	259,328	37,618	161,267	10,587	350,157	818,957
Depreciation of property and equipment	27,048	-	1,374	2,149	38,882	69,453
Impairment charge for credit losses, net	32,144	-	72,672	-	-	104,816
Impairment charge for investments	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	5,499	5,499
Net income (loss)	387,494	34,026	623,554	163,279	(34,637)	1,173,716

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months period ended 31 March 2017 & 2016

13. DIVIDENDS AND ZAKAT

On 27 March 2017, the shareholders in the Extra ordinary general assembly meeting approved the distribution of dividends to shareholders for the second half of 2016. The amount of such dividend, net of zakat amounted to SAR 900 million (SAR 0.30 per share) and the distribution date for the dividend was 10 April 2017. Gross amount of final dividend is disclosed in the interim condensed consolidated statement of changes in shareholders' equity.

The change in the accounting policy for zakat (as explained in note 4) has the following impacts on the line items of statements of financial position and changes in equity:

As at 31 December 2016

Account	Balance as previously reported as at 31 December 2016	Effect of restatement	Balance as restated at 31 December 2016
	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>
Other Liabilities	6,168,867	800,000	6,968,867
Proposed dividends (Equity)	1,700,000	(800,000)	900,000

As at 31 March 2016

Account	Balance as previously reported as at 31 March 2016	Effect of restatement	Other reclassification*	Balance as restated at 31 March 2016
	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>	<u>SAR 000s</u>
Other Liabilities	7,465,841	450,000	(1,042,549)	6,873,292
Retained earnings (Equity)	4,020,890	(200,000)	-	3,820,890
Proposed dividends (Equity)	1,300,000	(250,000)	-	1,050,000

In addition to the changes noted in the above table, the change in accounting policy also resulted in a zakat charge to retained earnings for the three months period ended 31 March 2017 amounting to SR 220 million (31 March 2016 amounting to SR 200 million). Moreover, the proposed dividend as at 1 January 2016 was also restated and reduced by an amount of SR 250 million with a corresponding increase in other liabilities.

* Certain balances of customer deposits and negative fair value of derivatives have been reclassified from other liabilities to respective account heads to conform with the current period presentation

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three months period ended 31 March 2017 & 2016

14. EARNINGS PER SHARE

Basic and diluted earnings per share for the three months period ended 31 March 2017 and 2016 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

15. CAPITAL ADEQUACY

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA. The Group also complies with requirements with respect to the various capital buffers which are applicable in a phased manner starting from 1 January 2016.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment.

Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and capital adequacy ratios on a consolidated group basis, calculated under the Basel III framework, are as follows:

	31 March 2017 (Unaudited) <u>SAR Millions</u>	31 December 2016 (Audited) <u>SAR Millions</u>	31 March 2016 (Unaudited) <u>SAR Millions</u>
Risk weighted assets			
Credit	220,245	211,833	218,434
Operational	13,921	13,890	13,760
Market	2,031	495	2,769
Total Pillar-I Risk Weighted Assets	<u>236,197</u>	<u>226,218</u>	<u>234,963</u>
Eligible capital			
Tier I Capital	36,961	36,973	37,251
Tier II Capital	5,072	5,072	5,072
Total Tier I & II Capital	<u>42,033</u>	<u>42,045</u>	<u>42,323</u>
Tier I Capital Adequacy Ratio %	15.6%	16.3%	15.9%
Total Capital Adequacy Ratio %	17.8%	18.6%	18.0%

16. COMPARATIVE FIGURES

Apart from the impact as stated in note 13, certain other comparative amounts have been reclassified to conform with the current period presentation